



Snake River Alliance

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UTILITIES COMMISSION

September 15, 2014

To: Idaho Public Utilities Commission

From: Ken Miller, Clean Energy Program Director, Snake River Alliance

Re: Snake River Alliance Comments In the Matter of Avista Corporation's Application to Adjust Its Annual Power Cost Adjustment (PCA) Rates, Case No. AVU-E-14-06.

On behalf of our members throughout Avista Utilities' Idaho service area and pursuant to Commission Order No. 33095, the Snake River Alliance appreciates the opportunity to provide its comments on Avista's Application to Adjust Its Annual Power Cost Adjustment Rates, filed with the Commission on July 30, 2014.

These comments address the Alliance's ongoing concerns with the operation of the Colstrip Unit 4 and how Colstrip Unit 4's history of prolonged outages continues to force additional, unnecessary costs on Avista's customers. The Alliance does not address the other primary components in Avista's increased power supply costs over the last 12 months: The net expense of Palouse Wind flowing through the PCA as a surcharge deferral rather than being included in base rates, and the change in Avista's contract with Clearwater Paper that allows the company to generate into its own load rather than selling its generation to the Company.

If approved by the Commission, Avista's PCA application would result in an increase in monthly residential bills by an average of \$3.76 per month, from \$81.88 to \$85.64, or an increase of 4.59 percent. As can be seen from comments already submitted to the Commission, Avista customers are experiencing worsening "rate shock" that will only be exacerbated by this PCA request to extract from them more than \$4 million to compensate for an increasingly unreliable coal-fired generation plant.

Avista and The Colstrip Generating Station

The Colstrip Generating Station, a mine-mouth coal-fired power plant complex located about 120 miles southeast of Billings, MT, is comprised of four units that went online between 1975 and 1986. Avista has a 15 percent ownership stake in Unit 3 (740MW, online date of 1984) and Unit 4 (740MW, online date of 1986). Other utility owners of the various Colstrip units include Northwestern Energy, PacifiCorp, Portland General Electric, PPL Montana, and Puget Sound Energy.

The Colstrip Generation Station is also the subject of a federal lawsuit filed by the Sierra Club and Montana Environmental Information Center over the status of required environmental controls.

Colstrip Unit 4

The overwhelming component of this Avista PCA application concerns the operations of Colstrip Unit 4. According to Avista: "Overall, higher power costs were due primarily to Colstrip, Palouse Wind and Clearwater Paper. Colstrip Unit 4 was unavailable due to a forced outage from July 1, 2013, until January 22, 2014. Colstrip's incremental generation expense is lower than the wholesale power prices, therefore, replacing Colstrip power led to an increase in power supply expense." (William G. Johnson Di P. 3). The "Factors Contributing to Increased (Decreased) Power Supply Expense July 2013-June 2014 - Idaho Allocation" (William G. Johnson Di, P. 4) reflects an increase attributable to Colstrip Generation and Fuel Expense of \$4,082,573. That is by far the largest share of the additional power supply expense for the period covered in this PCA application. Due to a half-year Unit 4 outage, the Generation and Load Differences from the Authorized Level for Colstrip Generation was a decline of 54.5aMW, or 31.6 percent.

The Colstrip Outages

Last year, Colstrip Unit 4 suffered a significant and unplanned outage that is at the heart of this PCA-related rate increase:

"On July 1, 2013, an unplanned outage occurred to Unit 4, with identified damage to the stator and rotor assembly. Initial engineering estimates show the unit could be out of service for at least six months and the estimate for total repair costs is approximately \$30 million, including labor costs, which will be shared proportionately among all the owners. While the split between capital and expense has not been fully determined, it is likely that a portion of the repair costs will be capitalized.

"The lost generation of Colstrip Unit 4 will result in a combination of 1) lower surplus wholesale sales for Avista, and 2) increased thermal fuel costs or purchased power costs to replace the energy, which will result in increased net power supply costs for the Company. Avista's initial estimates show an increase in power supply costs of approximately \$12 million system-wide for the remainder of 2013 as a result of the outage. All of the additional costs will be included in the Energy Recovery Mechanism (ERM) in Washington and the Power Cost Adjustment in Idaho."

Avista Form 8-K, filed with U.S. Securities and Exchange Commission July 16, 2013.

In 2009, the same Unit 4 suffered an outage that resulted from unexpected repairs required during a planned outage:

"During scheduled maintenance in March 2009, turbines in Unit 4 of Colstrip, of which we are a 15 percent owner, were found to be in need of repair. These repairs extended the planned outage from May 2009 until November 2009. We believe the outage was not due to imprudent actions and we expect there will not be a reduction in fixed costs for the plant outage."

Avista Form 8-K, filed with the U.S. Securities Exchange Commission July 16, 2013

The Alliance has no reason to believe that the half-year outage in 2013-2014 was a result of imprudent actions, but we do recommend that the Commission explore this issue in more detail so Avista's bill-payers can have some assurance that the outage was not the result of imprudent actions, but rather the result of a worn-out coal-fired power plant. If the outage was a result of imprudent actions, Avista would

expect a reduction in fixed costs associated with the outage.

What the Alliance *is* concerned about is the overall stability of Colstrip Unit 4 and how future outages (Unit 4 has had two significant outages in the space of 5 years) might impact the rates of Avista's customers.

Customer Impacts of Colstrip Unit 4's Outages

The Colstrip Generating Station's Unit 4 has a history of being unreliable – sometimes for prolonged periods. These outages are not the fault of Avista's customers, yet it is Avista's customers who bear Avista's share of expensive plant repairs and upgrades as well as – in this case – the added costs of off-system purchases. This while still paying for Avista's share of the plant. The Alliance believes the time has come when utility customers deserve to be inoculated from their utility's ill-advised, continued commitment to a troubled power plant, particularly since Avista has included coal-fired generation as a resource for the next 20 years in its Integrated Resource Plan (Avista testimony to Idaho Legislature's Interim Environment, Energy & Technology Committee, Sept. 11, 2013, "Avista's Coal-Fired Generation.").

The Alliance understands that a comprehensive discussion of coal generation or even the overall Colstrip generation complex is beyond the scope of this docket. We do, however, urge the Commission to explore in detail the prudence of the added expenditures piled onto bill-payers as a result of the Unit 4 outage, including whether those purchases were the least-cost replacement alternatives to the lost Colstrip generation.

We also want to underscore to the Commission that utility customers should not be expected to bear the brunt of repeated operational problems at coal plants owned by Avista or any other regulated electric utility in Idaho. Given the recent experience with Colstrip Unit 4, there is no reason to think problems similar to those that led to this PCA recovery request will not occur again, and that once again an Idaho utility will turn to its customers to pay for repairs and/or interim market purchases to make up for power lost to a downed coal plant. So far, all the risk for continued operation of plants such as Colstrip Unit 4, whether for anti-pollution upgrades or to offset prolonged outages, is borne by utility customers who have no say in the prudence of those investments or operations. It is the Alliance's position that such risk should be shifted to utility-owners, particularly if, as in this case, the likelihood of a recurrence remains high.

Utility regulatory commissions in states where Colstrip-owning utilities operate are questioning the wisdom of continued operation of this power plant. If Idaho determines that plants such as this should continue to operate – knowing the likelihood of future outages of one or more units for indefinite periods of time – then the Alliance recommends the Commission explore avenues whereby the utility owner and/or its shareholder owners bear the risk for future additional expenditures. If there is a turning point in deciding who should bear the risk of costs such as those contained in this application, the Alliance believes we have reached it.

Conclusion

This Commission has acknowledged that coal-fired generation is likely to encounter additional health and environmental regulations that will impact the operations of Idaho utility coal fleets and the cost of prolonging the lives of those coal plants. Those additional costs, not to mention additional risks, are reason enough for the Commission to send a signal to coal plant-owning utilities that they cannot

continue to expect to bill customers for investments that are being proven to be not only uneconomic, but also imprudent.

As always, the Alliance appreciates this opportunity to provide its views on this important issue.

Respectfully submitted,

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Hand Delivered

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